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SUBJECT: SENIOR ADVISOR TO THE PRIME MINISTER SPEAKS ON
WHETHER VIETNAMESE BUSINESS IS READY FOR WTO

1. Summary: In a speech to the AmCham Madame Pham Chi Lan, a senior advisor to the Prime Minister, said that despite Vietnam's progress in economic reforms it is falling behind its international competitors. Vietnamese businesses are mainly small to medium-sized and lack experience and resources. They know little about the WTO, but generally support accession although they also fear increased domestic competition and expect to face high international standards and continuing unfair trade practices and protectionism from other countries. Vietnamese businesses want the government to continue and deepen economic reforms. They hope for more efficient and less corrupt government services, better infrastructure, and more support for business associations. End Summary.

2. Madame Pham Chi Lan, a senior advisor to the Prime Minister, spoke September 16 at the American Chamber of Commerce in Hanoi on whether Vietnamese business is ready for the WTO and the ASEAN Free Trade Agreement (AFTA). Lan has worked in the Prime Minister's Research Commission since 2003 and before that had served six years as executive vice president of the Vietnamese Chamber of Commerce and Industry (VCCI). Following is a summary of Lan's remarks to the AmCham.

International Competition Outstripping Internal Reform

3. Vietnam, according to Lan, is reforming in the context of growing globalization, regional integration, and reform and restructuring in other Asian countries. China's accession to the WTO and India's rising economic importance also affect the environment in which Vietnam must operate. As a result, Vietnam faces increased competition in attracting foreign investment and in its exports. Vietnam, as a latecomer to the WTO and lagging behind other regional and international developments, must do a lot in a short period of time to catch up. Vietnam has adopted a proactive integration policy, accepting AFTA and "ASEAN plus" commitment, joining ASEM and APEC, as well as the World Bank, IMF, ADB, and other international organizations. However, these relationships need further deepening and development.

4. Internally, Vietnam has developed remarkably since adopting its "doi moi" reform policy. It has achieved macro-economic stability, reduced poverty, restructured the economy, improved its infrastructure, developed a private sector and increased exports, FDI, and ODA. Nevertheless Vietnam remains a poor country and has a long way to go to complete the transition to a market economy. Although the new private sector is playing an increasingly important role in the economy and state-owned enterprises are reforming, Vietnam's business sector needs to improve its international competitiveness. In particular, Vietnam needs to improve the cost of its inputs (by maintaining political and economic stability, making basic infrastructure more efficient and lowering regulatory costs) and to move to a higher level economy, driven by investment and innovation. "Vietnam is moving, but Vietnam's competitors are moving quicker," Lan noted.

5. Vietnam has about 165,000 private enterprises in the formal sector, 4,500 state owned enterprises, and 5,000 foreign enterprises, in addition to about 2.6 million households engaged in non-agricultural business and 9 million in agriculture. The overwhelming majority (95 percent) of Vietnamese businesses are small to medium sized businesses (SMEs). They tend to lack experience, have low productivity, few resources and high operation costs. They are weak in the six M's: money, machinery, materials, manpower, management and marketing and have limited access to land, financial infrastructure, public and business services.

A Strategy for Vietnam

6. Lan discussed Vietnam in terms of the three basic strategies defined by Harvard business professor Michael

Porter. Most Vietnamese businesses focus on "cost leadership," i.e., being the low cost producer, she noted. Only a few successful private enterprises have succeeded in moving to a "differentiation" (creating a unique product brand) or a "focus" (focusing on a few, defined markets) strategy. Vietnam needs to move beyond reliance on export growth dependent on low wages and develop an independent and vibrant domestic private sector by improving privatization and governance and developing the financial sector. In Porter's view the key weaknesses in Vietnam's business environment are corruption and bureaucracy and bottlenecks in physical infrastructure, she noted. The emerging business "clusters" that Vietnam should mobilize are tourism, shoes, textiles, fishing products and oil and gas.

Vietnamese Business and the WTO

17. The attitudes of Vietnamese business towards the WTO are mixed, according to Lan. They know little about the WTO, but most want Vietnam to join. The majority of Vietnamese businesses believe that WTO accession will have a positive effect on Vietnam's economy, but they also see WTO accession as bringing many challenges. They see opportunities such as export expansion from market opening, more stable economic development, improved business environment, better access to technology, credit, information and other services, reduced cost of services due to competition, and a fairer method of settling business disputes. On the other hand, they also expect sharper competition in the domestic market and higher costs due to the removal of government subsidies and special privileges. Abroad they expect to face new international standards, new technical barriers to trade, unfair trade and protectionism in other countries and more trade disputes.

What Vietnamese Businesses Want from the Government

18. Vietnamese business, according to Lan, wants the government to complete institutional reforms and the formation of a market. They want the creation of a "friendly and equal" business environment. They also want the government to adopt "bold" reforms in the administrative system, fight against corruption, and improve the capabilities of government institutions and officials. They want "bold" reforms in banking and the state owned enterprise sector. The government should lower the costs of government services and reform the education and training system. Infrastructure and the R&D system need more development. Finally, the government should facilitate the development of a business support system and the development of business associations and trade promotion organizations.

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